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C O N F I D E N T I A L SECTION 01 OF 03 DUSHANBE 001594

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TAGS: PGOV PREL ECON ENRG EFIN TI AF

SUBJECT: REGIONAL INTEGRATION: TAJIKISTAN'S FIRST PRIVATE-PUBLIC
ENERGY MESSY AT BEST

REF: 05 DUSHANBE 1553

CLASSIFIED BY: Tom Hushek, Charge d'Affaires, U.S. Embassy,
Dushanbe, State.

REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: Pamir Energy, Tajikistan's first private-public energy joint venture, manages at best 40% cost recovery and faces a local government that refuses to enforce collection. In a theatrical August 19 site visit with cameras rolling and an audience including Deputy Assistant Secretary Evan Feigenbaum, Tajikistan's Energy czar, Deputy Prime Minister Ghulomov, loudly blamed the losses on Pamir Energy for not installing enough meters, and argued for greater government oversight of the company. The head of Aga Khan Development Network (AKDN), Pamir Energy's primary backer, called the project "a mess-but a success" and sanguinely suggested that Ghulomov's antics were playing to the pre-election public. Pamir Energy presents a case study and cautionary tale of the challenges facing private investors in Tajikistan's energy sector. Tajikistan needs to do much to improve the business climate and protect foreign investment, but the Deputy Prime Minister's blame-the-investor-tactics indicate the top Tajik leadership may still not understand what private investors need in terms of rule of law to enter the Tajik market. END SUMMARY.

PAMIR ENERGY: CASE STUDY FOR PRIVATE INVESTMENT

¶2. (C) Touted as a an innovative "success story" of private-public energy sector financing at the U.S. Trade and Development Agency's June "Energy Without Borders" conference in Istanbul, Pamir Energy is a 28 MW project in Khorog, capital of the mountainous Gorno-Badakhshan autonomous region (GBAO). Financed by Aga Khan's Fund for Economic Development (AKFED), the IFC, World Bank, and the Swiss government, Pamir Energy was the first major private investment in Tajikistan and aimed to bring reliable electricity to GBAO, which is cut off from Tajikistan's main grid.

¶3. (C) Before the project came on line in October 2005 (reftel), Pamir Energy had an agreement with the government of Tajikistan to raise tariffs gradually, moving towards eventually recovering the actual price of production. The Swiss provided a fund to subsidize energy costs in GBAO as Pamir Energy phased in the new tariffs, ensuring that customers only paid 2.1 cents/kW hour per month of the 4.5 cents/kWh per month necessary to make the project commercially viable. The government had originally agreed to raise tariffs nationwide, but then elected not to implement the change, leaving energy customers in GBAO feeling as if they were paying too much for their electricity compared to Tajiks in other parts of the country. (NOTE: Before Pamir Energy upgraded its two hydropower stations, Khorog residents had only four-six hours of electricity per day. Now,

electricity is available 24 hours per day. END NOTE.) Pamir energy then introduced a "lifeline tariff" for those households that could not afford the subsidized 2.1 cent tariff. Even with the reduced tariffs, Pamir Energy estimates it currently collects only around 40% of production costs.

14. (C) According to several Pamir Energy expatriate staff, the poor recovery rate stems from theft, losses and the GBAO government's unwillingness to prosecute over 600 cases of theft. Gerry Basten, Managing Director of Pamir Energy reported 55% of homes have meters, but many users simply tap into existing unmetered lines. Mahedi Lalani, Head of Corporate communications and Public Affairs, says Pamir Energy has turned the supply off for non-payments, but thieves figure out a way to hook themselves up again. The real problem, he lamented, was

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the GBAO governor's unwillingness to support Pamir Energy in the courts. Residents know there are no consequences to theft or non-payment, and have no incentive to pay their bills.

GLOVES OFF, CAMERA ROLLING

15. (C) During an August 19 tour of Pamir Energy, Deputy Assistant Secretary Evan Feigenbaum asked Gerry Basten about the company's cost recovery rates. In front of Ghulomov, GBAO governor Niezmamadov, Merali, and various other local officials, Basten quietly shook his head and replied, "Not good." He listed the problems with outstanding court cases, theft and line loss as reasons for Pamir Energy's poor rate of return, but noted they were taking steps to analyze the problem, and would continue to install meters.

16. (C) In response to Basten, the Deputy Prime Minister lifted a few inches in his shoes, puffed out his chest and launched an imperious 20-minute diatribe against Pamir Energy while a video camera from the local government filmed. "You've made a mistake," he boomed. "It's losses, not theft." Ghulomov spoke at length about the technical problems that would lead to losses, including low voltage lines or improper transmission wire width. "I get into the details on this," said Ghulomov. "This is my specialty." (NOTE: Although President Rahmonov appointed Ghulomov to coordinate energy policy, Ghulomov's background is in construction. END NOTE.) Basten seethed, while occasionally trying to interject. Ghulomov repeatedly asserted his technical knowledge and experience from analyzing electricity losses in other parts of Tajikistan.

17. (C) Ghulomov seized on the fact that Pamir Energy had only installed meters in half the Khorog homes. "That's the problem, not theft!" he cried. "You need more meters." He said it hurt him to hear suggestions that Pamiris were less than honest. "I know these people. During the war, if the allocation had been 100 grams of bread per person, no Pamiri would ever take more than his share."

18. (C) Basten again tried to clarify that "we aren't just sitting here on our backsides doing nothing." He reported that Pamir Energy was bringing in a team of specialists in late August to conduct a two-month survey to determine the "hot spots. He rejected Ghulomov's demand to upgrade immediately the low voltage lines. "There's no point in improving the lines if we don't know where the problems are." Basten later pulled aside DAS Feigenbaum to relay his side of the story.

AFGHANISTAN

19. (C) No doubt playing to the presence of DAS Feigenbaum and U.S. interest in regional integration, Ghulomov then launched into a lecture on how Pamir Energy should be exporting electricity to Afghanistan. (NOTE: A small amount of electricity is transmitted over the river from Khorog, and Pamir Energy intends to run transmission lines to Afghanistan's Badakhshan region. They are still in the preliminary phases of planning and research. Said Ghulomov, "We must help our brothers across the border. I will personally call (Afghan Minister for Power and Water) Ismail Khan and have him come over to sign the agreement."

HOMEWORK

110. (C) Ghulomov turned to AKDN head Merali and suggested that Pamir Energy needed better specialists and managers. "The next director you appoint-I want to see his papers. You bring all his documents to the government for our approval and then he should have to swear an oath or something." Ghulomov regretted

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the departure of former Pamir Energy director Ivan Chunkov. "Now there was a guy we could work with! He used to call me directly!" (NOTE: Pamir Energy fired Chunkov in late 2005 for stealing. AES allegedly removed Chunkov from a project in Kazakhstan years ago. END NOTE.) He tasked Merali with drafting

a plan to analyze and address the losses and ordered him to submit it to Ghulomov's office by October 28 "at 5 pm."

¶11. (C) After more than half an hour, Merali attempted to diffuse the situation by noting that since Pamir Energy was the first project of its kind, all sides were learning. He thanked Ghulomov for his hard work and support on the project, and praised government support for Pamir I and other AKDN projects and noted that Pamir Energy would work with the government to develop a three to five year strategy. He later shrugged off Ghulomov's diatribe, telling PolOff in the car, "He is campaigning for the President and needs to say these things. We do not fight back in public. Behind closed doors, we will work on the tougher issues."

COMMENT

¶12. (C) Ghulomov's pointed remarks raise concerns for all private investment in Tajikistan. He revealed that the government is more inclined towards the politically popular but economically unviable choices, and may not support its own agreements once serious investments are on the ground. Ghulomov's visit demoralized Pamir Energy's leadership, but they have no choice but to continue to work with their governmental partner at this point. Many Aga Khan projects are underway in Tajikistan and GBAO, including Pamir Energy, a Serena Hotel and Ismaili Center under construction in Dushanbe, and the First Microfinance Commercial bank, to name a few. AKDN has decided that a persistent, behind-the-scenes approach will ultimately prove more successful in dealing with Ghulomov or other problematic officials.

¶13. (C) During a lunch that preceded the Pamir Energy visit, Ghulomov had responded at length to DAS Feigenbaum's suggestions that Tajikistan needed to do more to assure a more attractive investment climate for private firms. Given his convincing talk over lunch and his impressive participation at the Istanbul conference, Ghulomov's performance at Pamir Energy was all the more disappointing. He may have been pandering to a pre-election public, but his blame-the-victim approach to very real problems at Pamir Energy suggest Tajikistan's leaders still do not understand how to create a fair and attractive business climate. Future private investors should be very careful. Meanwhile, Pamir Energy should expect a long, uphill battle to reach full recovery of their production and investment costs.

¶14. (U) DAS Feigenbaum cleared this cable.
HUSHEK